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COMPANY MEETINGS

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NATIONAL MUTUAL LIFE ASSURANCE SOCIETY

LARGER VOLUME OF NEW BUSINESS

STRONG POSITION

HIGHEST BONUSES IN THE SOCIETY'S HISTORY

FUTURE INTEREST RATES

MR. J. M. KEYNES ON THE OUTLOOK

The ONE HUNDRED AND FIFTH ANNUAL GENERAL MEETING of the National Mutual Life Assurance Society was held yesterday at the society's house, 39, King Street, Cheapside, London, E.C.

Mr. J. M. KEYNES, C.B. (chairman of the society), presided.

The ACTUARY and MANAGER (Mr. G. H. Recknell, F.I.A., F.F.A.), having read the notice convening the meeting, the minutes of the previous meeting, and the report of the auditors,

The CHAIRMAN said:—Gentlemen,—The report, which is already in your hands, shows that the volume of new business, at £839,273 after deduction of reassurances, was well above the 1933 total, and has returned to the figures of some four or five years ago. The number of new policies issued has kept pace with the volume and the business has been well spread among the society's various connexions. The fall in the rate of interest has had the effect of encouraging annuity business, and the consideration money which we have taken for immediate annuities has risen from £26,410 in 1933 to £45,287 last year, in spite of our having found it desirable on two occasions to stiffen the terms on which such contracts are granted. We have also found it advisable to discourage business in the form of single premium sinking fund policies and short-term endowment assurances on terms which might prove unremunerative.

Our mortality experience during the year has proved exceptionally favourable. The aggregate amount paid under claims by death—namely, £135,087—is lower than in any year since 1926, in spite of the increase since that date in the volume of policies outstanding, and the mortality profit earned has been substantially higher than that to which we are accustomed. The small increase in our expense ratio has been mainly due to the increased volume of new business.

APPRECIATION OF INVESTED FUNDS

The appreciation on our invested funds in 1934 was £532,351, equal to 8.7 per cent. of the total mean funds, and to 10.5 per cent. of the portion invested in Stock Exchange securities. This result follows upon a corresponding figure of £363,963 in 1933, so that in the two years combined the society has gained in this way a sum of nearly £900,000, equal to 16 per cent. of the mean funds. The principal changes in our investments during the year are a shift of some part of the society's holdings of British Government securities into the item "British Public Boards," and a substantial reduction in our relatively small holding of Foreign Government Bonds.

The net rate of interest has declined further from £4 1s. 10d. per cent. on the mean total fund to £3 18s. 6d. per cent., and the current return on the valuation of our assets as at the

end of the year would be still lower. This decline is, however, wholly due to the appreciation in our securities, the absolute amount of our net interest income showing an increase of some £16,000, with the result that the net interest income as a percentage on the mean assurance funds has in fact risen from £4 3s. 9d. per cent. to £4 5s. 5d. per cent. It is the latter rate which is more comparable with that shown by many other offices which do not write up their assets as we do to accord with market values. In continuation of the figures which I have given in previous years I may mention that our average earnings from interest and capital profits over the past 14 years work out at 6.63 per cent. per annum after deduction of income-tax.

RESULT OF VALUATION

This, as you know, is for us a year for the valuation of assets and liabilities and for the declaration of bonus. The outcome of the various factors, which I have just outlined, has put us in an excellent position. The operations of the two years since our last valuation have accumulated a surplus of assets over liabilities, reckoned on the same basis as before, amounting to £1,456,899, or more than 25 per cent. of our liabilities. The board consider that the portion of this—namely, £896,314—which is due to profits on and appreciation in the value of our investments, should be wholly applied to strengthening our position in various ways. Accordingly we have utilized £123,110 to strengthen our actuarial reserves by introducing the new Institute of Actuaries Mortality Table; £600,000 has been transferred to a general reserve and £150,000 to an investment reserve, and the balance has been added to the carry-forward. Including these last two appropriations the total surplus which we shall be carrying forward into the next valuation period will amount to £1,028,947 in excess of what is required for our actuarial reserves, or a margin of nearly 19 per cent.

We have considered it advisable to hold by far the greater part of this sum in a general reserve and in the carry-forward, both of which are applicable to any purpose, rather than to make a more specific allocation, owing to the uncertainty as to which of two opposite contingencies we may have to provide for in the future. If the movement in the rate of interest is reversed, we shall inevitably lose some part of the existing appreciation on our investments. If, on the other hand, the rate of interest continues to fall, the terms on which we shall be able to accumulate the current and prospective premiums paid by our policy-holders will fall below the figure upon which we have been counting, with the result that we may have to make a substantial transfer to our actuarial reserves.

EFFECTS OF DECREASED INTEREST RATES

A life office gains from a fall in the rate of interest in the appreciation of its existing funds, but it loses, if, as in the case of most offices, its aggregate funds are steadily increasing, by reason of the lower rate of accumulation of future pre-

miums in respect of existing obligations. A narrowing of the margin between the actual current rate of interest and the rate assumed in calculating the actuarial reserves has, therefore, the effect of flattering the apparent position by bringing into the open reserves which were previously concealed. It is important that members should appreciate that during the last two years our own position has been flattered in this way, and that an important part of the apparent increase in our surplus resources—though not the whole—is merely an improvement on paper.

Nevertheless, your board feel that the capital position is so well protected that they would not be justified in withholding the current trading profits from distribution as bonus. The bonuses now declared, therefore, not only repeat the 1932 scale of distribution, but include a special addition such that the total compound reversionary bonuses on the various classes of policy are the highest in our history—namely, 52s. 6d. and 45s. per cent. per annum on whole life and endowment assurances with full profits respectively, and 17s. 6d. per cent. per annum on low-premium policies with reduced profits. Our favourable recent experience in respect of mortality has played a considerable part in making possible the special distribution now made, and policy-holders must not count on our being in a position to repeat it.

CONFLICTING FORCES

A year ago I gave reasons for expecting a further fall in the long-term rate of interest. Since then Government securities definitely redeemable within 25 years have fallen to a yield well below the level of 2½ per cent., which then seemed to me to be within sight, while the yield on longer-dated securities or securities with no fixed date of redemption is now below 3 per cent. To-day, however, the prospects are by no means so clear, for we are now, in my judgment, between two sets of strong conflicting forces.

On the one hand, the evidence indicates that the maintenance of the national prosperity and the improvement of employment still require a lower rate of interest than we have yet enjoyed. So far from the falling rates of interest having proved excessively stimulating to new enterprise, it has been disappointing to notice how comparatively few large-scale opportunities for the investment of new savings have as yet disclosed themselves under the influence of the low rate of interest, though we must not under-estimate the predominant part which new building and new electrical developments, both of them relatively sensitive to the rate of interest, have had in bringing us such measure of prosperity as we have attained. I am, therefore, confirmed in the opinion that we shall require, for our economic health, a rate of interest gradually falling to levels much lower than we have known in the past, whereas the present reduced rates are even now no lower than those which often prevailed in pre-War days.

But, on the other hand, there are serious obstacles in the way of an immediate further reduction. British rates of interest have already

fallen much below those which rule elsewhere. At present our domestic rates are protected by the extreme lack of confidence in the economic position of foreign countries. We must hope that a revival of confidence elsewhere will be accompanied by a fall in their interest rates towards a normal parity with our own levels. But meanwhile the existing disparity of rates may make our own position slightly precarious. Far more important than this, however—for I do not expect an early return to anything which one could call an international rate of interest—is the attitude of British institutional investors to the future of the rate of interest. The current long-term rate of interest is a highly psychological phenomenon which must necessarily depend on what expectations we hold concerning the future rate of interest. In the mind of the typical professional investor to-day the current return does not offer much of a premium against the possibility of a turn in the tide. Investors are watching more anxiously for a change than they would if the position was considered stable.

A DIFFICULT TASK

Thus the task of maintaining a rate of interest sufficiently low to be compatible with national prosperity and good employment is likely to present increasing difficulty. Indeed, one may feel some doubt whether it is capable of solution by "normal" traditional methods in an industrially advanced community, which is, for various reasons, no longer in a position to invest large sums abroad and of which the population is no longer advancing rapidly.

I would suggest, however, that, for the moment, the wisest course on the part of those in authority is to consolidate the position which has been won, rather than to aim at an immediate further advance. Fixed interest securities outside the class of British Government securities and the like have not yet fully adjusted themselves to the price of the latter, as the Institute of Actuaries' Index clearly shows: while there are other important rates of interest, in particular mortgage interest, the terms on which building societies lend and borrow, and the rates charged by the banks, which have lagged much further behind. For the encouragement of enterprise a fall in these rates is more important than a further decline in the yield on Government securities.

Moreover, a rate of interest must persist for some time before it has its full effect on business decisions which involve a new technical programme only made possible by the fall in the rate. I feel not less strongly than before the importance of a declining long-term rate of interest, but a greater degree of confidence than now exists in the maintenance of the rates of interest we already have at a level not above their present figure is our most pressing need.

SUGGESTION TO THE TREASURY

There is, I suggest, an important contribution to this object which lies within the power of the Treasury to make—namely, that they should themselves show confidence in the expectation of

a declining rate of interest in the future. Advice is often offered them on the lines that the present is a golden opportunity for trapping the investor, so to speak, into lending to them for an indefinite period on terms which he will subsequently regret. This advice seems to be based, like most advice, on the extremely improbable assumption that the future will resemble the past. But in any case it is bad advice, for the major purpose of the Treasury should be to establish stable conditions with a gradually declining rate over a long period of years ahead, a necessary condition of which is the creation of a reasonable expectation that this is, in fact, the probable course of events.

To act along these lines will not only increase confidence, but is likely to be profitable to the Treasury and to the taxpayer. I would urge, therefore, that, in future funding or refunding schemes, securities should be offered having fixed terms of redemption well spread over dates from five to 25 years hence. Local loans are particularly well suited to this treatment, since the bulk of the money advanced by the fund will be repaid to it at dates already fixed within this period.

This policy has everything to recommend it. The Treasury will borrow more cheaply; they will help the psychology of the market by themselves showing confidence in the maintenance of low rates of interest, and they will improve the structure and stability of the banking system by supplying a type of security suitable to institutions which are themselves borrowing the bulk of their funds on short terms. The present position, in which the greater part of the available supply of Government securities is in the form either of three-month Treasury Bills or of securities having no fixed date of redemption within the next 50 years, is technically very defective.

AN ESSENTIAL FACTOR

I would emphasize the fact that there is no reliable way of establishing a low long-term rate of interest except by fostering a reasonable expectation that the rate of interest will continue low in the future, and by offering fixed dates of redemption to those who, rightly or wrongly, remain doubtful; but, if the Treasury themselves pursue a policy which implies a belief that the current rates of interest are abnormally low, they cannot expect institutions and the public to feel that degree of confidence which is essential to further progress.

After this long digression I must return to our own domestic affairs. In two important respects this meeting marks a break with the past. The society acquired the site of the building in which we meet to-day nearly 90 years ago, and the greater part of the premises we occupy was built for us nearly 80 years ago at the modest cost of £6,000. It no longer meets modern requirements or makes the best use of a valuable site, and your board have decided to rebuild it. The additional accommodation provided will exceed what we shall require for ourselves, and, after allowing for the rentals obtainable from outside tenants, we shall possess more commodious premises at but

small cost to the society. Your board has commissioned as architect Mr. Campbell Jones, F.R.I.B.A., who has had much experience in the erection of office buildings in the City.

RETIREMENT OF MR. BURCHELL AND MR. MARKS

A much greater break for all of us will be the retirement from the board of Mr. Charles Burchell and Mr. Geoffrey Marks, both of whom have been associated with the society for nearly fifty years. I played a part some years ago in effecting the change in our articles which introduced an age limit for directors. I still believe that the change was advisable, but when one sees it operating in particular cases one cannot but regret it—not least when it causes us to lose our two best-loved directors. A hundred years ago Mr. Burchell's grandfather and grand-uncle, whose portraits you see to the left and to the right, founded the old "Mutual," which nearly forty years ago Mr. Marks joined with the "National" to create the "National Mutual"; and Mr. Burchell's years as a director have completed the full century for which his family has served the society with integrity and assiduity and wisdom. (Applause.) We shall greatly miss him. (Hear, hear.)

If we lose with Mr. Burchell, the representative of our first founders, we lose with Mr. Marks, our second founder. The society, as it exists to-day, is largely his creation, and it must be a great satisfaction to him to leave it in so strong a position. (Hear, hear.) Mr. Marks has never sought to make the National Mutual into an organization of vast size and impersonal character. His object has been rather to use his great gifts of nature to serve his generation by educating in the way that they should go the many eminent actuaries who have served under him in their youth, by moving in the vanguard of new ideas, and by building up a life office which should be a model of his own conceptions of excellence, never allowing the pursuit of size and volume to deflect him from his model.

It is a measure of his success that those policy-holders who entrusted their savings to his management 30 years ago have actually earned over the whole period bonuses superior to those which they could have obtained from any other English or Scottish office. (Applause.) Yet this might not have been the case, I think, if he had aimed at a more rapid rate of expansion. The growth of business shows itself quickly, but careful selection and the avoidance of unnecessary expense only justify themselves in proved results over a length of years. (Applause.)

I move the adoption of the report.

Mr. CHARLES T. DYNE BURCHELL (deputy chairman) seconded the resolution, and it was carried unanimously.

TRIBUTE TO RETIRING DIRECTORS

On the proposition of Mr. C. A. DAVIS a resolution was unanimously passed tendering the thanks of the society to Mr. Charles T. Dyne Burchell and to Mr. Geoffrey Marks, C.B.E., F.I.A., on their retirement from the board for the eminent services which they had rendered to the society.

Mr. BURCHELL, acknowledging the vote, said that it was a sad occasion for him, as it brought to an end the long association of his family with the society. It had been a proud moment for him when, in 1888, he was elected solicitor to the society in succession to his grand-uncle, who had served it since its foundation in 1834, and a still prouder one when, in 1910, he was invited to accept a seat on the board. He acknowledged most cordially the kindness and consideration invariably shown to him by his colleagues on the board and by Mr. Recknell and his admirable staff. (Applause.)

The Hon. Francis N. Curzon was re-elected a director, as was also Mr. Kenneth A. E. Moore, F.C.A., who had been appointed during the year under review.

The auditors, Messrs. Ball, Baker and Co. and Messrs. Bolton, Pitt and Breden, were re-appointed, and the proceedings terminated with a vote of thanks to the chairman.

[REPORTS OF PROCEEDINGS UNDER THE HEADING "COMPANY MEETINGS" ARE INSERTED AS ADVERTISEMENTS. BUT CARE IS TAKEN TO ENSURE THAT THEY BE TRUSTWORTHY.]

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